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TAGS: [ECON](#) [EFIN](#) [FR](#) [PREL](#) [RS](#) [IR](#)  
SUBJECT: TREASURY D/S KIMMITT, FRENCH NSA LEVITTE ON IRAN,  
GEORGIA, SYRIA, PAKISTAN

REF: PEKALA/EUR 8/29 E-MAIL

Classified By: Econ Counselor Stuart Dwyer for reasons 1.4 (b) and (d)

¶1. (C) Summary: On August 29 President Sarkozy,s Diplomatic Advisor Jean-David Levitte and Deputy Advisor for Security Affairs Francois Richier outlined for Treasury D/S Robert Kimmitt GOF thinking on &quick, effective and sharp8 next steps on Iran. The GOF would present its ideas more fully in a Quad meeting on September 17 in Washington. On Georgia, EU heads of state on 9/1 would: discuss Chancellor Merkel,s &neighborhood meeting8 proposal, with a possible conference in late October; likely name a Georgia envoy; agree to send President Sarkozy back to Moscow to push cease fire points not fully implemented; agree on an ESDP observer mission under OSCE auspices; and possibly impose sanctions on companies/individuals doing business in Abkhazia and South Ossetia. Kimmitt shared U.S. concerns with Pakistan,s economic policy, and urged France not to reward Syria with further engagement that did not follow on improved performance on key issues. End summary.

Iran  
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¶2. (C) Levitte asked Security Affairs Advisor Richier to present French thinking on next steps on Iran. With prospects for additional Security Council action limited, France wanted to focus on &quick, effective and sharp8 measures in finance, insurance and energy that could be started among the Quad, and then broadened to like-minded countries. France would present detailed thinking in a Quad meeting it had proposed for September 17 in Washington.

¶3. (S) Key financial elements would include: proposals to work for stronger action against Iran in the FATF, which would assist in building a case for countries to implement national measures; a commitment to enacting recommendations that banks exercise strong vigilance on all financial transactions with Iran; review of national legislation to better understand options in different jurisdictions for freezing assets in the absence of a UNSCR (Note: Richier said France had determined it did, in fact, have such a tool that dated to the 1950s. End note.); steps towards taking national measures on Bank Saderat. On the latter, Richier said France understood the UK was ~ enthusiastic,8 and it had taken convincing to get the French Ministry of Finance on board. But France hoped the combination of moral suasion and legally-binding measures could ratchet up financial pressure quickly on Iran.

¶4. (S) Additional tracks in the French proposal related to insurance and energy. Participating governments would: make joint approaches to discourage reinsurance companies from doing business with Iran (first in the UK, France, Germany and the United States, and subsequently to determine how best to approach the Swiss); use moral suasion to discourage insurance companies from engagement with Iran (Richier

acknowledged this would be more difficult than reinsurance given easy substitutability among firms); and put pressure on transport insurance, where the limited number of firms should allow for maximum leverage. On energy, France would propose halting exports of specific limited-source refinery spare parts, and technology related to LNG. The combination of measures would have an impact on the Iranian economy in advance of the 2009 presidential elections in Iran, Richier said.

15. (S) D/S Kimmitt welcomed the presentation and thanked France for its leadership in reaching the August 7 EU Common Position. The United States also favored targeted, multilateral measures, but agreed that we cannot await further UNSC authority before taking additional actions. The sooner initial proposals hatched among the Quad could be expanded to the G-7 the better, and preferably well in advance of the G7 finance ministers meeting on October 10 in connection with the annual World Bank/IMF meetings. Kimmitt observed that insurance companies are regulated financial institutions and would be in no position to argue against the extension of authorities that already cover their banking counterparts. He agreed with a Richier observation that the OECD's upcoming review of Iran's risk rating provided an opportunity to ensure that all risk factors were fully internalized in the OECD rating.

Georgia

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16. (C) Kimmitt thanked Levitte for France's leadership on Georgia. Georgia had been a model for its macro performance

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with 12% GDP growth and a high ranking on the World Bank's list for ease of doing business. The U.S. was prepared to mobilize \$1 billion for Georgia's proposed Phoenix Fund, the EU needed to step up with an equal contribution. Kimmitt said he had heard concerns from EU External Relations about Georgia's absorptive capacity. Based in part on Georgia's strong record with implementing its current MCC Compact, the United States was convinced Georgia could absorb \$2 billion, apply necessary the safeguards and use the resources effectively.

17. (C) Looking towards the September 1 Heads of State Meeting, Levitte touched on what he saw as key themes (ref): the status of humanitarian aid, which was well underway; how to work more effectively with refugees; reaching agreement on an observer mission (a civilian ESDP mission under OSCE auspices, the latter serving as the international mechanism referred to in point 5 of the cease-fire); appointment of a special envoy for Georgia to improve the coherence and effectiveness of EU policy; and, probably, a request that President Sarkozy return to Moscow the week of September 1 to push cease-fire points that remain unfulfilled. The EU may also consider delaying preparatory work on the Nice November 14 EU ) Russia Summit until Russia fully implements the six-point plan.

18. (C) Levitte said the leaders also would discuss Chancellor Merkel's proposed neighborhood meeting to support Georgia, with a possible conference in late October. The ministerial-level meeting would include Turkey, Ukraine, and the Caucasus and Central Asian states. Consideration would be given to inviting Russia, conditioned on the GOR's full implementation of the six-point plan. Levitte did not see difficulty in getting to \$1 billion in support for Georgia (including support mobilized from international banks).

19. (C) Kimmitt pressed hard to move up the date of the proposed ministerial. Assessment missions had been completed and the United States would be ready to go with its stepped-up assistance in two weeks. Moreover, if implementation of the six-point plan was Russia's condition for participation, late October would give the GOR an excuse

to drag its feet for another two months. Levitte said President Sarkozy had asked Commission President Barroso to speed up existing assistance flows, and the neighborhood conference would be a &#8220;crowning event&#8221; at the end of a process of expanding support for Georgia. But he acknowledged Kimmitt,s point and said that if the conference could take place at the end of September instead, &#8220;why not?&#8221;

¶10. (C) On possible sanctions on Russia, Kimmitt emphasized the importance of close U.S.-EU coordination. He cautioned against consideration of excessively broad measures that could backfire on efforts to integrate the GOR into rule-based institutions. However, targeted measures, such as visas and restrictions on putative governments in Abkhazia and South Ossetia, might be appropriate for consideration. Levitte agreed, saying it was too early to discuss sanctions when efforts to implement the six-point plan had not been exhausted. However on September 1 the heads of state would consider banning entities investing in Abkhazia or South Ossetia from doing business in the EU.

¶11. (C) Levitte said the Balts and Poles were pushing hard for broader sanctions, now. He had warned that the Russians were chess players, it was critical to think several steps ahead and avoid precipitous action. If Russia cut off gas shipments to Eastern Europe in response to sanctions, France would not want to have to go to Moscow with minimal leverage to argue for a reopening of the spigots. France has asked the Commission to prepare a chart of key elements of the Russia ) EU trade relationship for the September 1 meeting to inform discussions on possible responses. In this connection, Levitte noted that, while many in Europe (but not France) are dependent on Russian gas, Russia also depends on Europe for FDI, technology and markets for non-energy exports.

Syria, Pakistan

¶12. (C) Turning to Syria, Kimmitt acknowledged that some progress had been made as a result of French engagement. But he warned that any additional engagement with Syria must be based on performance on the Syrian side, including cessation of support for armed groups in Lebanon, border demarcation, and halting the flow of weapons and terrorists into Iraq. Some of France,s EU partners had helpfully pushed for Syrian action on the key issues that are the sine qua non of the

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respectability Syria covets. Levitte argued that, for the moment, France does see progress. In Lebanon Suleiman is president, the government is in place following proper elections, and genuine diplomatic relations have been established despite outstanding issues on the border demarcation issue. Indirect discussions between Israel and Syria are &#8220;working quite well&#8221; (though those discussions should be into direct negotiations, he noted). And Syria had released a number of political prisoners at France,s request (France had honored Assad,s request not to go public, he said). The moment the progress stops, the engagement would stop. &#8220;That,s what we did on December 30 of last year, we,re ready to do it again.&#8221;

¶13. (C) Syria would turn away from its alliance with Iran only when it felt securely accepted in &#8220;its&#8221; Sunni orbit, Levitte posited. The challenge on that score was with Saudi Arabia and Egypt, including the former,s support of Salafist terrorists. Kimmitt underscored that security was certainly not enhanced by Syrian allowance of transit of armed groups to Iraq and Lebanon. Kimmitt also said France should not hesitate to raise human rights with Syria, even beyond prisoner releases. Levitte emphasized that France had passed U.S. points to Syria on July 12 during the Euro-Med Summit. He understood that Syria had, to some degree, curbed the flow of insurgents across the Iraqi border (though support to

Hezbollah continued).

Pakistan

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14.(C) Kimmitt warned Levitte that the U.S. had concluded a balance of payments collapse in Pakistan was a matter of when, not if, should the GOP not pursue stronger economic reform measures, specifically eliminating subsidies, raising interest rates, and restarting privatizations. Pakistan was miscalculating by counting on an unconditional Saudi oil loan to bail it out. The security implications of a crisis were considerable and the issue needed to be moved higher on the U.S.-EU and U.S.-France agendas.

G13/14

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¶15. (C) In closing, Kimmitt noted he had read carefully President Sarkozy's 8/27 foreign policy speech in which the president had reiterated his support for transforming the G8 into a G13/14. He encouraged Levitte to consider the effectiveness of the G20, and cautioned that trying to replace the eight with a larger body that left out key players would be problematic. Levitte said the eight no longer &represents the world as it exists.<sup>8</sup> The international community's insufficient anticipation of -- and response to -- the global food crisis illustrated what can happen when the key players are not brought together in a single, effective forum. Kimmitt said the U.S. was thinking in similar terms with respect to the global financial architecture. One option for improving coordination might be to call for dialogue among the chairs of the G8, G20, EU, APEC and related institutions.

¶16. (U) D/S Kimmitt has cleared this cable.  
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